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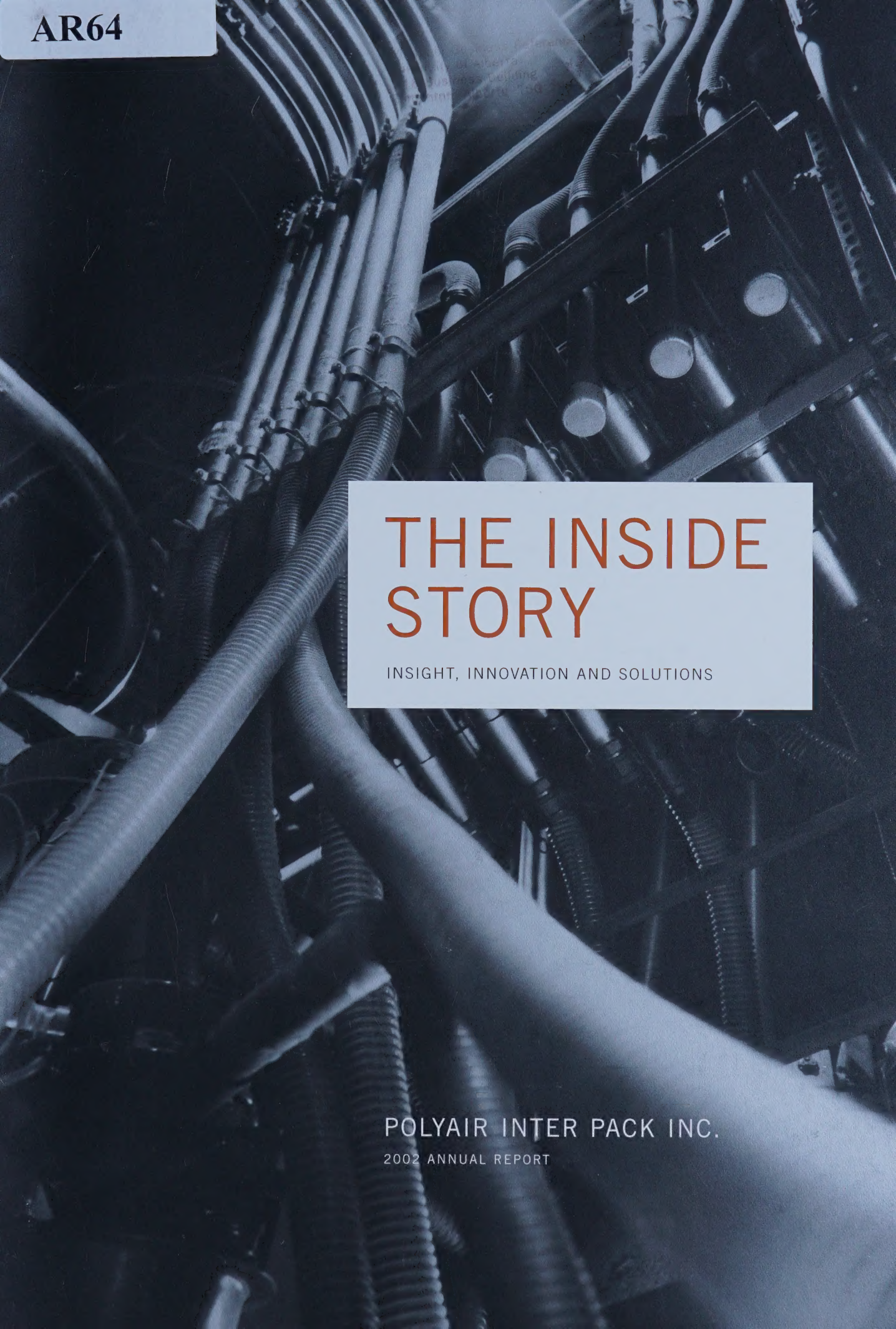

THE INSIDE STORY

INSIGHT, INNOVATION AND SOLUTIONS

POLYAIR INTER PACK INC.

2002 ANNUAL REPORT

Polyair Inter Pack Inc. manufactures protective packaging and swimming pool accessory products, which are sold through a select network of some 3,000 distributors across North America. Headquartered in Toronto, Ontario, Polyair operates ten manufacturing facilities, seven of which are based in the United States, where the Company generates approximately 86% of its annual sales. The shares are listed on both the Toronto Stock Exchange and the American Stock Exchange under the symbol "PPK."

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University of Alberta
1-18 Business Building
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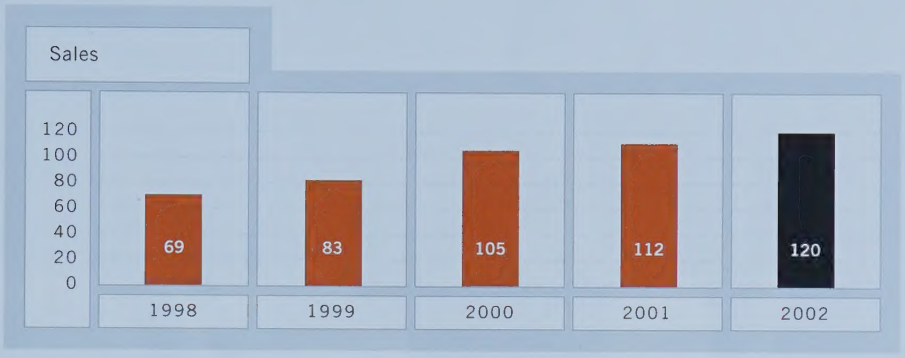
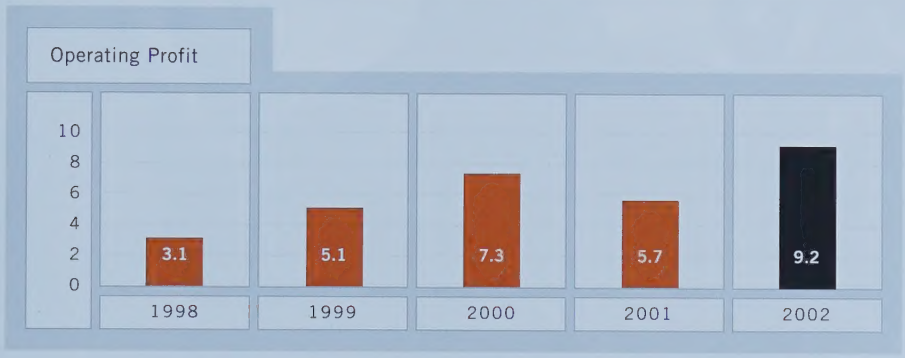
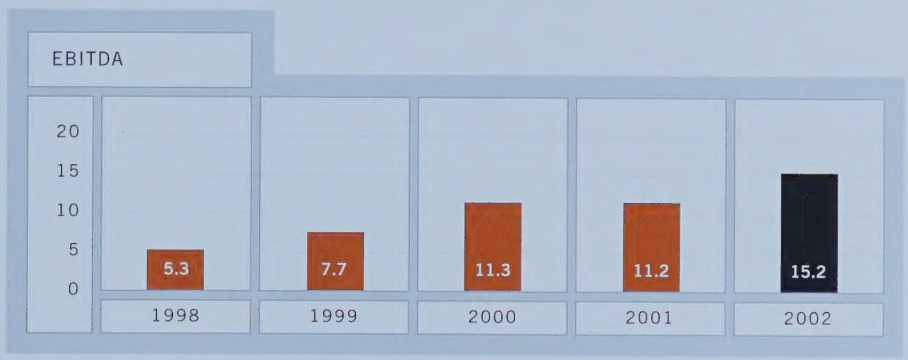
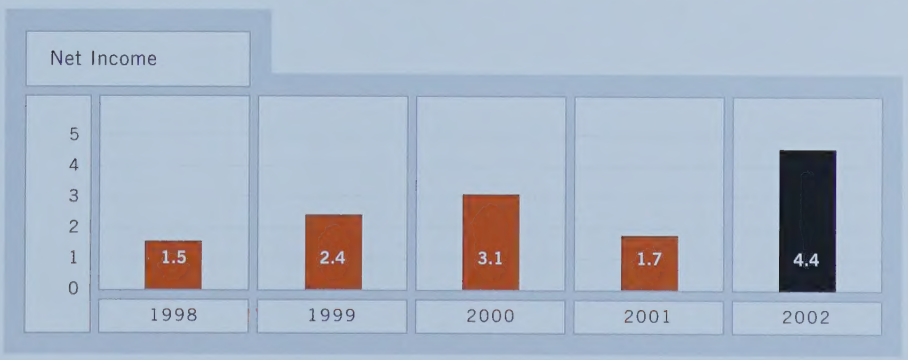
Financial Highlights

(IN MILLIONS OF U.S. DOLLARS)









President's Message

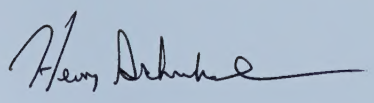
I am pleased to report that 2002 was Polyair's most profitable year in the Company's history. We more than doubled our prior year's income. The balance sheet is the barometer of our success. We lowered our inventory levels by $3.0 million and our net debt by $10.9 million over the prior year. At year's end, our debt to capitalization was 47.3% and return on equity was 18.3%, an improvement over last year's 8.4%.

The strong increase in working capital did not come at the expense of our belief in investing in the future. Polyair spent $5.2 million on new equipment, product line expansion, facility upgrades, and the implementation of new technology in order to ensure our ability to service tomorrow's customers effectively.

Polyair's management continued to focus on growth opportunities in both of its business units. The packaging group sought out a larger presence in the logistics and fulfillment market, and the pool business unit broadened its range in the safety category.

As always, the foundation of our success rests on our ability to provide our customers with a wide selection of quality products, competitive pricing, and superior customer service. We continue to expand our extensive network of distributors through our knowledgeable sales support team, who provide responsive, professional services of the highest possible quality.

On behalf of the Board of Directors, I would like to extend my sincere thanks to all of those whose energy and commitment have been an integral part of our success: our employees, suppliers and customers. Through our combined efforts, we will continue to grow while maintaining our strong leadership role in both the packaging and pool industries. I invite you to attend our Annual Meeting of Shareholders on April 10, 2003.



Henry Schnurbach
PRESIDENT AND CHIEF EXECUTIVE OFFICER

THIS IS WHERE IT BEGINS

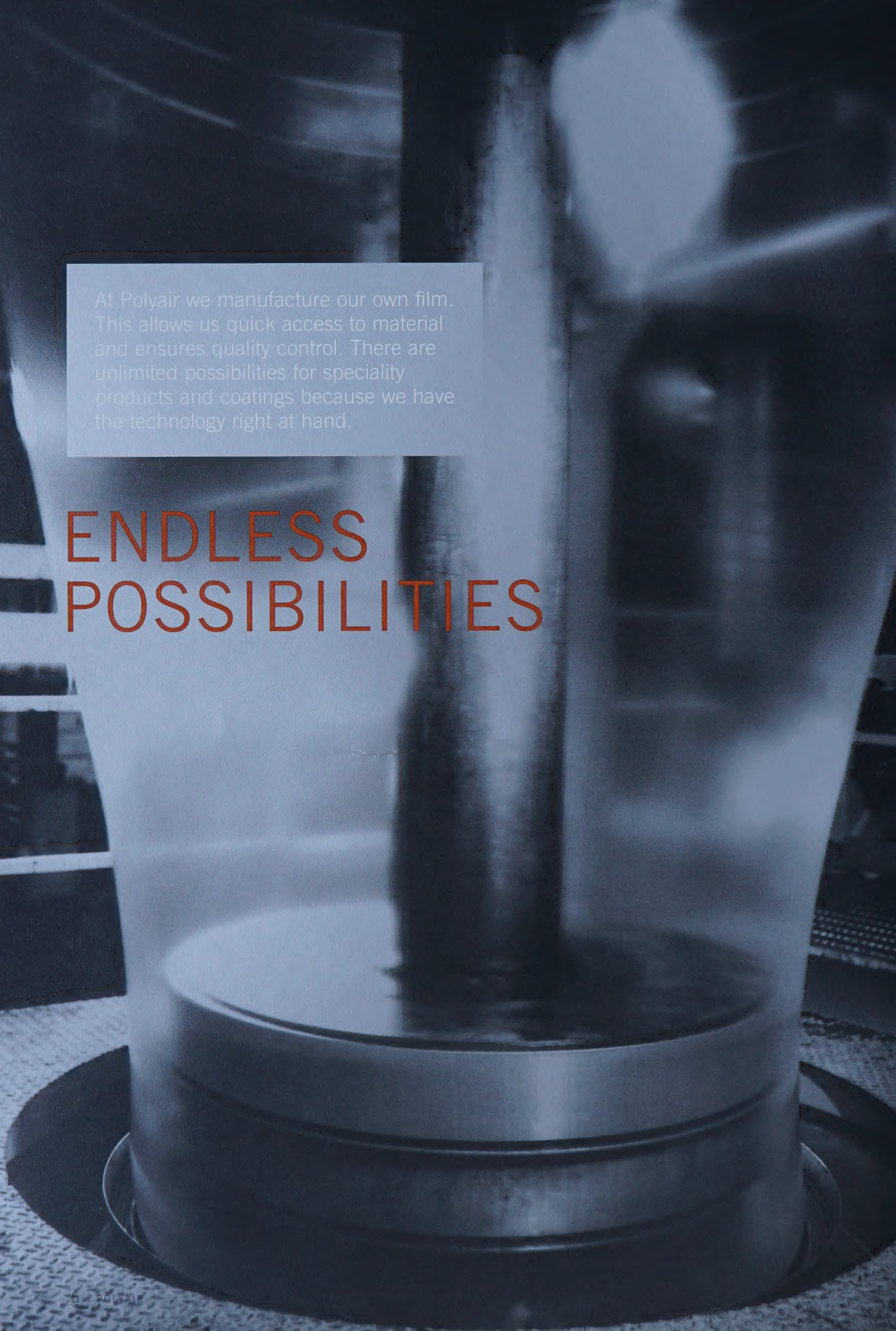
Engineering and product development are key ingredients to Polyair's success. We never stop the process, from ISO 9000 certification to new equipment installation.

This past year we introduced the AirSpace® 5000 air pillow void fill system and the Thermo-Tex® solar cover, and we are now completing the installation of the cross link foam facility.

Polyair grows with innovation; we employ superior talent in order to ensure that our customers benefit from our knowledge and experience. We at Polyair have developed alliances domestically and overseas in order to maintain Polyair's position at the forefront of new technology.

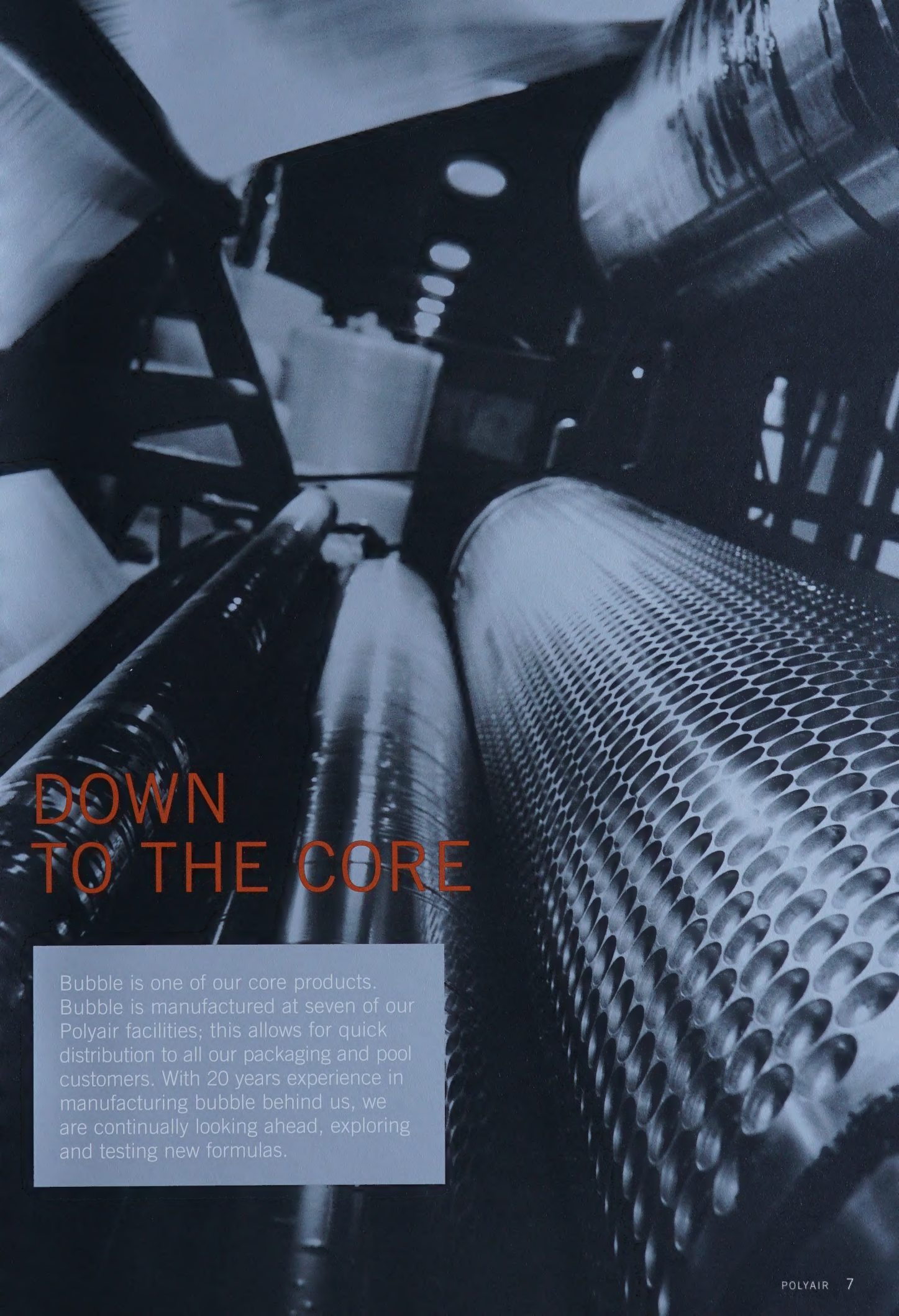
Our customers have extremely high expectations of Polyair's ability to be innovative, and we strive to deliver. Polyair has unique insight into its market, and we understand that our sales germinate at the early stages of development.

Resin is the basis of many products we manufacture at Polyair. We continually research new processes to ensure excellence and consistency.



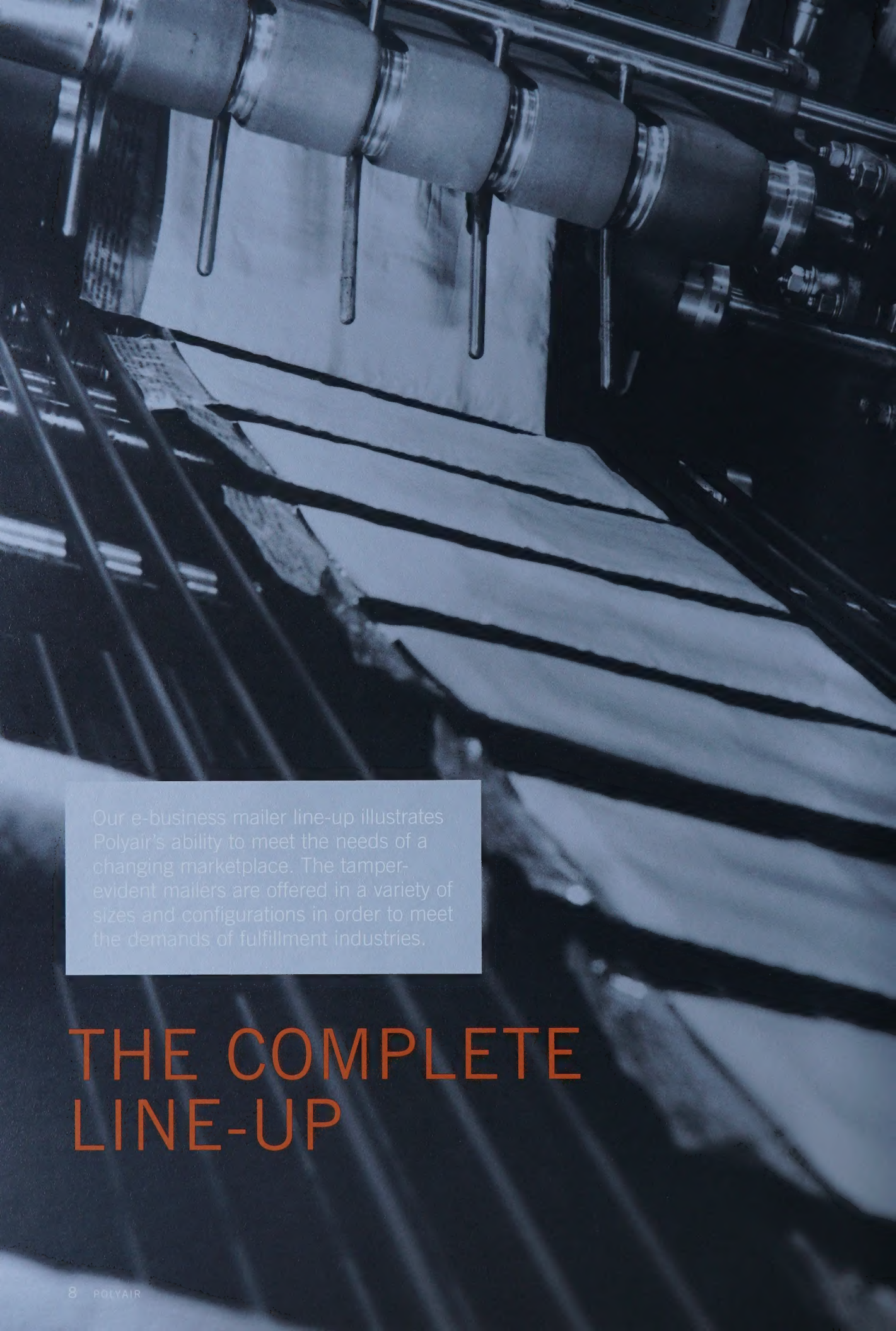
At Polyair we manufacture our own film. This allows us quick access to material and ensures quality control. There are unlimited possibilities for speciality products and coatings because we have the technology right at hand.

ENDLESS POSSIBILITIES



DOWN TO THE CORE

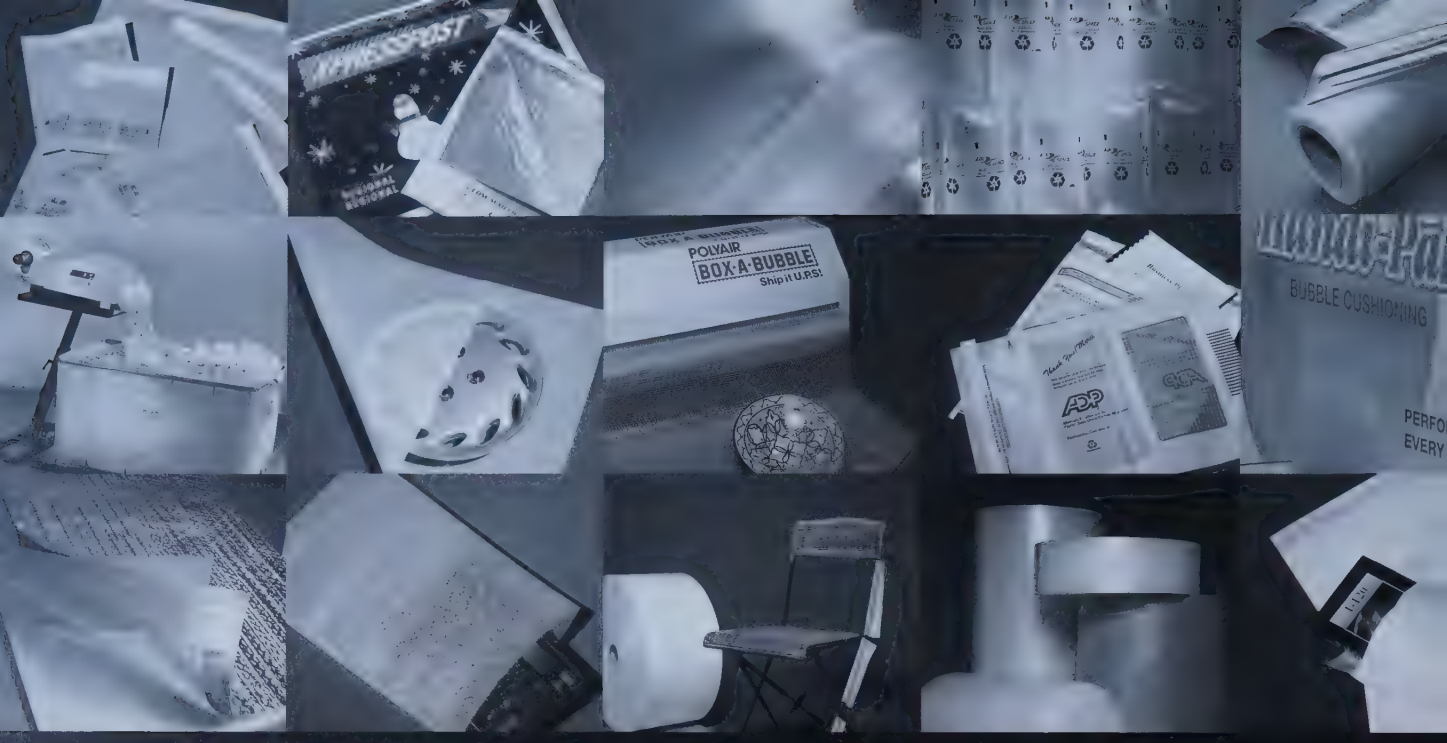
Bubble is one of our core products. Bubble is manufactured at seven of our Polyair facilities; this allows for quick distribution to all our packaging and pool customers. With 20 years experience in manufacturing bubble behind us, we are continually looking ahead, exploring and testing new formulas.



Our e-business mailer line-up illustrates Polyair's ability to meet the needs of a changing marketplace. The tamper-evident mailers are offered in a variety of sizes and configurations in order to meet the demands of fulfillment industries.

THE COMPLETE LINE-UP

TRIED, TESTED AND TRUE



Polyair Packaging Products Profile

At Polyair we manufacture a complete line of protective packaging products servicing the industrial, consumer and insulative markets. Our major product categories include **Bubble,** which is used in a wide variety of applications ranging from cushioning to void filling; **Mailers** that cushion and protect, aimed at meeting most mailing and fulfillment requirements; **Foam** (both closed cell and cross linked) used for surface protection and cushioning applications; **Foam and Bubble Laminates** that are bonded to various substrates and are used primarily for surface protection; **Inflatable Air Bag Systems** used in distribution and fulfillment centers for void-filling; **Foam in Place Systems** for blocking and bracing; and **Insulating Products** that utilize radiant technology to achieve high R values.

Bubble

Durabubble's® unmatched burst strength makes it the toughest bubble in the industry. It is the ideal solution for cushioning, void-filling and surface protection.

Available in:
Standard and Anti-Static Rolls
Box-A-Bubble® and Handi-Pak dispensers
Duramask™ adhesive and
Durabond™ cohesive
Durakraft and DuraMover laminate
E-Z Seal Pouches
Endurabubble™ tri-web
Anti-static shielding

Mailers

Our Mailers combine excellent cushioning with a variety of rugged exteriors. Each mailer can be custom printed to suit any promotional or advertising need. Our Ecolite mailer is made from a tough paper exterior and provides superb cushioning and protection while our fully recyclable eCom Mailer™ is an easy-to-use protective shipping container perfectly suited for e-commerce transactions. All our mailers are lightweight and provide low-cost shipping protection for a wide variety of products.

Available in:
Ecolite® golden kraft bubble mailer
eCom™ polyethylene bubble mailer
Fastpak® polyethylene courier mailer
Decolite decorative bubble mailer

Foam

The superior strength of Starfoam® is the result of advanced technology of its cell structure, which makes the product resistant to punctures and tears. This makes Starfoam the perfect solution for surface protection and cushioning.

Available in:
Standard and Anti-Static Rolls
Pouches and Sheets
Starmask™ adhesive and
Starbond™ cohesive
Lamifoam® poly-laminate
Starkraft™ laminate
Lamifilm® bags
Starnet® woven laminate
Starmover® ventilated laminate

Systems

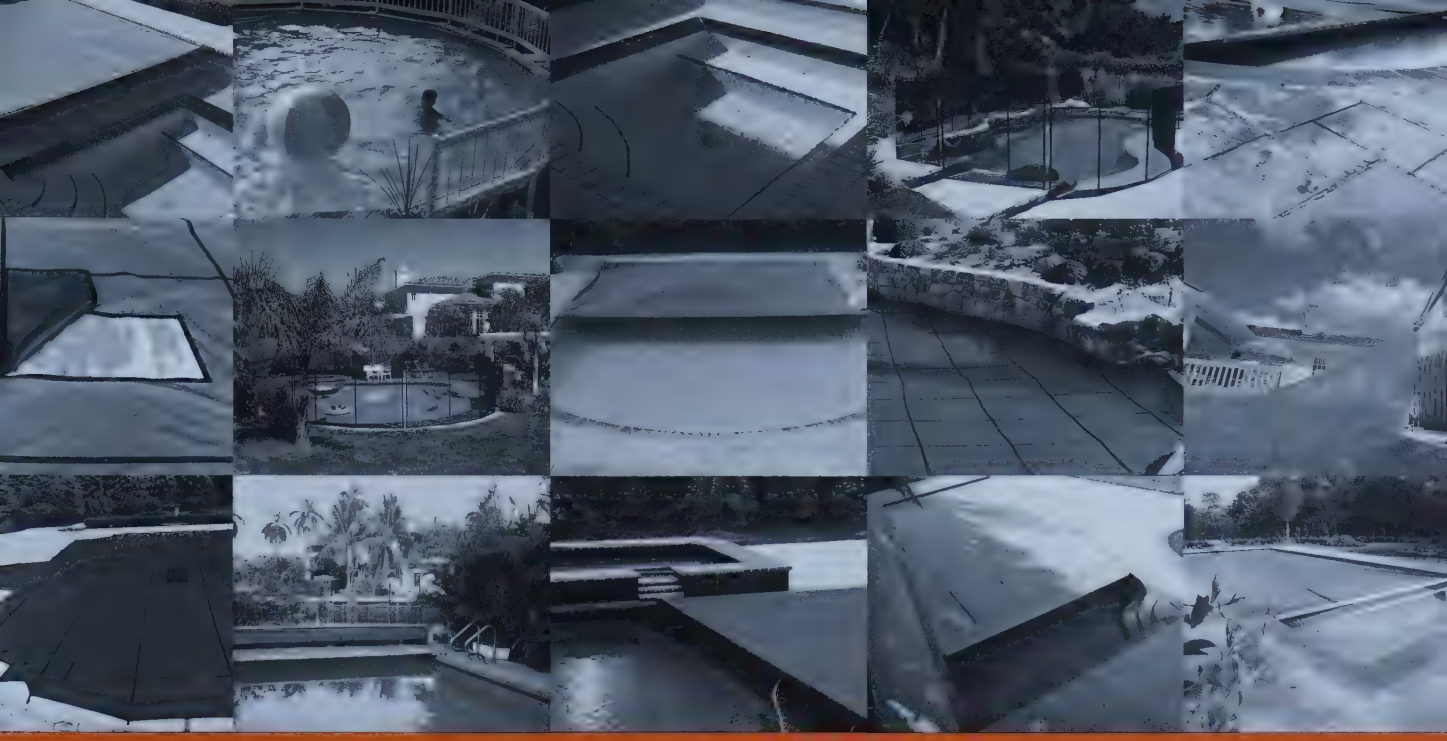
Each of Polyair's system solutions has been engineered to be highly efficient and user-friendly. The AirSpace® Inflatable Pillow Packaging System provides on-demand air pillows for cushioning and void-filling. This technology can be integrated into conveyor packaging lines via a standard or custom engineered shuttle delivery system. The TotalFoam® foam-in-place system provides expanding polyurethane foam for blocking, bracing and void-filling.

Available in:
AirSpace® unit and accessories
TotalFoam™ unit and accessories

Insulation

Flexfoil® and Flexotherm® are uniquely designed products for the construction industry and are also now finding uses within OEM markets where they help extend shipping cycles of temperature sensitive products. Both products have an aluminum outer surface, which reflects up to 97% of radiant heat back to its source.

Available in:
Flexfoil®
Flexotherm®



Cantar Pool Products Profile

Established in 1968, our product line has grown to include an exciting array of first-quality swimming pool products.

Aqua Cover® Solar Blankets
Bubble blanket floats on swimming pool to conserve heat and energy.

Aqua Cover® Solar Blanket Reel Systems
Enables one person to manually remove solar blanket from pool. Increases solar blanket life.

Aqua Foam® Polyethylene
Wall Lining Foam
Lines the inside walls of a swimming pool before a vinyl liner is installed.

Molly Brown® Floatation Cushions
Unsinkable float filled with 20,000 individual air cells. 100-year no-sink warranty.

Aqua Cover® Leaf Nets
Open mesh cover keeps leaves and debris out of the pool in spring and fall.

Aqua Cover® Winter Covers
Triple polyethylene laminate covers for winter pool protection.

Aqua Cover® Water Tubes
Vinyl tubes filled with water to hold down winter covers.

Aqua Liner® Vinyl Liners
PVC vinyl lining, available in many attractive patterns, installed in pool to hold water.

Secur-A-Pool® Safety Cover Systems
Visually appealing mesh pool cover consisting of strap and spring suspension system which supports sufficient weight to protect pool from accidental intrusion.

Secur&Clean® Solid Pool
Protection Systems
Similar to above, features a non-porous fabric. Keeps pool cleaner, while still providing protection.

Protect-A-Pool Above Ground Fencing
Resin above ground fencing with optional gate. Fits all sizes and styles of above ground pools.

Protect-A-Pool In-Ground
Removable Safety Fence
Removes and installs in minutes and is ideally suited for any environment. The fence has a climb-resistant surface and exceeds OSHA test standards.

Summer Fun® Above Ground Pools
Easy to install, reasonably priced pools. Named for the reason families purchase pools.

Secur-A-Matic® Automatic Safety Cover
One touch of a button rolls this premium electronic safety cover on or off the pool.

This is where we are

10 MANUFACTURING AND SALES FACILITIES

(IN MILLIONS OF U.S. DOLLARS)

(IN MILLIONS OF U.S. DOLLARS)

Five-Year Financial Summary

Years ended October 31	**2002**	2001	2000	1999	1998
(IN THOUSANDS OF U.S. DOLLARS)	$	$	$	$	$
Operating results					
Sales	**119,510**	111,624	104,964	83,431	68,985
Earnings before interest, taxes, depreciation and amortization	**15,269**	11,205	11,319	7,710	5,335
Operating profit	**9,274**	5,671	7,284	5,131	3,152
Net income	**4,449**	1,665	3,126	2,365	1,451
Cash provided by (used in) operations	**16,827**	6,710	1,165	8,163	5,868

As at October 31	**2002**	2001	2000	1999	1998
(IN THOUSANDS OF U.S. DOLLARS)	$	$	$	$	$
Balance sheet data					
Working capital	**10,416**	(3,871)	6,052	6,892	8,049
Total assets	**67,411**	68,613	68,529	52,214	49,205
Total debt (see below)	**21,910**	30,660	30,854	19,714	22,564
Additions to plant and equipment	**5,218**	5,296	12,491	6,830	7,228

As at October 31	**2002**	2001	2000	1999	1998
(IN THOUSANDS OF U.S. DOLLARS)	$	$	$	$	$
Total debt					
Bank Indebtedness	**–**	9,710	7,131	1,256	5,796
Current portion of long-term debt	**3,064**	11,589	3,438	2,734	1,736
Long-term portion	**18,846**	9,361	20,285	15,724	15,032
Total debt	**21,910**	30,660	30,854	19,714	22,564

MD&A

Management's Discussion and Analysis

Quarterly Financial Results

	2002				2001			
FOR THE QUARTERS ENDING	JAN 31	APR 30	JULY 31	OCT 31	JAN 31	APR 30	JULY 31	OCT 31
Net sales	23,751	29,647	31,871	34,241	23,735	26,948	29,918	31,023
Net income	70	1,129	1,400	1,850	(479)	12	491	1,641
Per share basic	0.01	0.18	0.23	0.30	(0.07)	–	0.07	0.27

(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)

For the year ended October 31, 2002, compared to the fiscal year ended October 31, 2001

The Company's net sales for the period ending October 31, 2002, of $119.5 million increased by 7% or $7.9 million over the comparable period in 2001. The increase in net sales reflects increased unit volumes for certain products, partially offset by changes in product mix and lower average selling prices for certain products.

Sales of packaging products increased 6% to $85.3 million from $80.4 million in the comparable 2001 period. Sales of products for use in the logistic and fulfillment market continued to contribute significantly to the increase in packaging sales partially offset by lower average selling prices for certain products.

Sales of pool products increased 9% to $34.2 million from $31.3 million in the comparable 2001 period. Sales increased due to higher unit volumes in the majority of the product lines.

Gross profit for the year increased 21% to $28.4 million from $23.5 million in the comparable 2001 period. As a percentage of sales, gross profit for the year, increased to 24% compared to 21% in the comparable period of 2001. This increase was due to lower material costs, favorable product mix and higher overhead absorption due to increased volumes.

Selling and general administrative expenses increased by 7% from the comparable period in 2001. As a percentage of sales, selling and administrative expenses increased by 0.1% during the year over the comparable period in 2001. The variance was due to higher compensation costs over the prior year.

Operating profit increased by $3.6 million to $9.3 million for the year compared to $5.7 million for the comparable period in 2001. As a percentage of sales, operating profit for the year increased to 8% compared to 5% in the comparable period of 2001. This increase was due to improved manufacturing efficiencies, favorable product mix and higher overhead absorption due to increased sales volumes.

Net interest expense decreased by 35% to $1.7 million for the year compared to $2.6 million in the comparable period of 2001, due to lower average borrowings and lower interest rates.

For the year ended October 31, 2001, compared to the fiscal year ended October 31, 2000

Sales for the year ended October 31, 2001, at $111.6 million increased 6.3% or $6.7 million over the comparable period in 2000. The increase in net sales primarily reflects increased unit volumes from acquisitions in 2000 and products introduced in fiscal 2000.

Sales of packaging products increased 10% to $80.3 million, while sales of pool products decreased 2% to $31.3 million. The increase in sales of packaging products is due primarily to the acquisition of the assets of Accent Packaging in 2000. Pool product sales were negatively impacted as a result of the adverse spring weather in our major markets.

Operating earnings before interest, taxes, depreciation and amortization (EBITDA) at $11.2 million were down slightly from $11.3 million in 2000.

Cost of sales increased by 7.4% over the comparable period in 2000 as a result of higher net sales and manufacturing overhead expenses related to the Company's expansion in anticipation of higher volumes in fiscal 2001.

Selling and administrative expenses increased by 13.9% from the comparable period in 2000. As a percentage of sales, selling and administrative expenses increased to 15.9% from 14.9% in 2000 due primarily to increased support costs related to the AirSpace product line.

Operating profit decreased to $5.7 million from $7.3 million in 2000. The decrease was mainly due to the lower gross margin and increased support costs.

Interest expense for both our long-term debt and other interest increased as a result of higher average borrowings in 2001.

Liquidity and Capital Resources

The Company's principal sources of liquidity are cash on hand, unused borrowing capacity under existing lines of credit and cash flow from operations.

At October 31, 2002, the company had total debt, net of cash and short-term investments, of $18.9 million compared to $29.8 million at the end of fiscal 2001. Unused available borrowing capacity was approximately $8.8 million at the end of 2002 compared to $6.3 million in the previous year.

Accounts receivable decreased slightly from October 2001. The year-over-year decrease is due to improved collections over the last week of the year. Days sales outstanding was 48 days compared to 53 days over the same period in 2001.

Inventories decreased by $2.9 million to $10.8 million from $13.7 million in the previous year due to a reduction in seasonal pool products and lower resin inventory levels held at year-end. Total inventory turnover increased to 8.4 times in 2002 from 6.4 times in 2001.

Cash provided by operations before changes in working capital improved by $2.0 million to $9.9 million from $7.9 million in 2001 and investment in working capital decreased by $6.9 million. Cash generated from operations was used to pay down the bank indebtedness and financed the $5.2 million investment in new equipment.

The Company entered into new $56 million multi-year credit facilities in June 2002 with LaSalle Business Credit, LaSalle Business Credit Canada and Wells Fargo Business Finance Inc. to replace its current facility. The total credit utilization of the new facilities was approximately $24 million at funding dates and is currently at 18.9 million.

Risk and Uncertainties

The Company's sales revenues are generated primarily in the United States in U.S. dollars. The Canadian dollar is the functional currency of the Company's Canadian operations. Income statement results are translated using the average rate of exchange for the year and all assets and liabilities are translated at the year-end exchange rate.

The Company purchases goods and services in both functional currencies. To reduce exposure to exchange rate fluctuations, the Company may hedge its currency risk based on management's view of currency trends, estimate of currency requirements and consultation with the Company's financial advisors. The Company periodically uses derivative financial instruments, including swaps, forward contracts and options, to manage these foreign currency exposures. At October 31, 2002, the Company had no outstanding commitments.

Demand and pricing for certain of the Company's protective packaging and pool accessory products are cyclical in nature and are subject to general economic conditions that affect the market demand. Adverse spring weather may affect pool product sales volumes. The Company seeks to manage these risks through regional expansion and product line diversification in the major markets of the U.S. and with new product introductions and innovations.

The Company is subject to a wide range of environmental laws and regulations in Canada and the United States pertaining to the discharge of materials into the environment, the handling and disposition of wastes and otherwise relating to protection of the environment. Although all facilities are in compliance with regulatory standards, there can be no assurance that changes in environmental laws and regulations, or their application, will not require further expenditures by the Company.

Consistent with other businesses, the Company faces a certain degree of risk arising from sales of products on credit terms to customers. Due to the diversity of its customer base, the Company is not exposed in a material manner to credit risk from any one customer. The Company attempts to mitigate its credit risk through the establishment of credit limits and terms of sales with its customers. Credit limits are reviewed and monitored regularly.

The Company uses various commodity raw materials and energy products in conjunction with its manufacturing processes. Generally, the Company acquires such components at market prices and does not use financial instruments to hedge commodity prices. As a result, the Company is exposed to market risk related to changes in commodity prices related to these components.

Critical Accounting Policies and Estimates

The Company's discussion and analysis of its results of operations and financial condition are based upon its consolidated financial statements that have been prepared in accordance with generally accepted accounting principals in Canada. A reconciliation of generally accepted accounting principals in Canada to those of the United States has been provided in note 17 to the Consolidated Financial Statements. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Estimates and assumptions are evaluated on an ongoing basis and are based on historical and other factors believed to be reasonable under the circumstances. The results of these estimates may form the basis of the carrying value of certain assets and liabilities and may not be readily apparent from other sources. Actual results, under conditions and circumstances different from those assumed, may differ from estimates.

The Company believes the following accounting policies are critical to its business operations and the understanding of results of operations and affect the more significant judgments and estimates used in the preparation of its consolidated financial statements:

Allowance for Doubtful Accounts – The Company maintains accounts receivable allowances for estimated losses resulting from the inability of its customers to make payments. Additional allowances may be required if the financial condition of the Company's customers deteriorates.

Future Income taxes – The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and tax basis of the assets and liabilities. Consistent with this policy, the Company recognizes future tax assets, net of a valuation allowance. Based on current projections of future taxable income over the periods in which the future income tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the future tax assets, net of existing valuation allowance. However changes in future profitability of the Company may impact the realization of these future tax assets.

Changes in Accounting Policies

During 2002, the Canadian Institute of Chartered Accountants issued several new accounting pronouncements, the impact of which the Company is currently assessing (see notes 1(o) and 17(f) to the Consolidated Financial Statements).

Auditors' Report TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Polyair Inter Pack Inc. as at October 31, 2002 and 2001, and the consolidated statements of income and retained earnings and cash flows for each of the years in the three-year period ended October 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and United States generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2002 and 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2002, in accordance with Canadian generally accepted accounting principles.

KPMG LLP

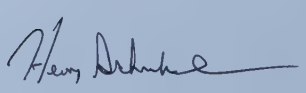
CHARTERED ACCOUNTANTS
TORONTO, CANADA
DECEMBER 20, 2002

Consolidated Balance Sheets

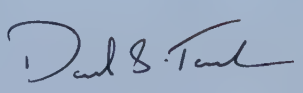
October 31, 2002 and 2001	2002	2001
(IN THOUSANDS OF U.S. DOLLARS)	$	$
Assets		
Current assets:		
Cash and cash equivalents	**2,998**	897
Accounts receivable, net of allowance for doubtful accounts	**15,840**	16,162
Due from joint venture *(note 16)*	**315**	–
Income taxes receivable	**252**	809
Inventory *(note 3)*	**10,825**	13,738
Prepaid expenses and other	**605**	768
Future income tax assets *(note 10)*	**885**	359
	31,720	32,733
Capital assets, net *(note 4)*	**33,425**	33,947
Future income tax assets *(note 10)*	**519**	511
Intangible and other assets, net *(note 5)*	**1,747**	1,422
	67,411	68,613
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness *(note 6)*	**–**	9,710
Accounts payable	**9,192**	10,409
Accrued liabilities	**6,106**	4,537
Income taxes payable	**2,942**	359
Current portion of long-term debt *(note 7)*	**3,064**	11,589
	21,304	36,604
Long-term debt *(note 7)*	**18,846**	9,361
Future income tax liabilities *(note 10)*	**2,847**	2,823
Shareholders' equity:		
Capital stock *(note 8)*	**10,021**	9,933
Retained earnings	**14,614**	10,191
Cumulative translation account	**(221)**	(299)
	24,414	19,825
Commitments and contingencies *(notes 11 and 13)*		
Subsequent event *(note 8)*		
	67,411	68,613

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Henry Schnurbach
DIRECTOR



Daniel S. Tamkin
DIRECTOR

Consolidated Statements of Income and Retained Earnings

Years ended October 31, 2002, 2001 and 2000	2002	2001	2000
(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)	$	$	$
Sales	**119,510**	111,624	104,964
Cost of sales	**91,158**	88,163	82,058
Gross profit	**28,352**	23,461	22,906
Expenses:			
Selling	**10,888**	10,226	8,664
General and administrative	**8,190**	7,564	6,958
	19,078	17,790	15,622
Operating profit	**9,274**	5,671	7,284
Interest expense, net *(note 7)*	**1,717**	2,599	2,024
Income before minority interest and income taxes	**7,557**	3,072	5,260
Minority interest	**13**	3	10
Income taxes (recovery) *(note 10)*:			
Current	**3,631**	705	1,496
Future	**(510)**	705	648
	3,121	1,410	2,144
Net income	**4,449**	1,665	3,126
Retained earnings, beginning of year	**10,191**	8,780	6,067
Premium on common shares purchased for cancellation *(note 8)*	**(26)**	(254)	(413)
Retained earnings, end of year	**14,614**	10,191	8,780
Earnings per share *(note 9)*:			
Basic	**0.72**	0.27	0.48
Diluted	**0.71**	0.27	0.48
Weighted average number of shares outstanding *(note 9)*:			
Basic	**6,206,311**	6,232,052	6,571,400
Diluted	**6,288,459**	6,232,052	6,571,400

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended October 31, 2002, 2001 and 2000	2002	2001	2000
(IN THOUSANDS OF U.S. DOLLARS)	$	$	$
Cash provided by (used in):			
Operating activities:			
Net income	**4,449**	1,665	3,126
Items which do not involve cash:			
Depreciation and amortization	**5,995**	5,534	4,035
Future income taxes	**(510)**	705	648
Minority interest	**(13)**	(3)	(10)
	9,921	7,901	7,799
Change in non-cash operating working capital:			
Accounts receivable	**354**	577	(4,727)
Inventory	**2,955**	(708)	(3,730)
Prepaid expenses and other	**168**	(167)	(276)
Accounts payable and accrued liabilities	**289**	(697)	2,618
Income taxes payable	**3,140**	(196)	(519)
	16,827	6,710	1,165
Financing activities:			
Increase in long-term debt	**18,373**	–	8,200
Decrease in long-term debt	**(17,346)**	(2,744)	(2,867)
Increase (decrease) in bank indebtedness	**(9,710)**	2,624	5,894
Common shares repurchased	**(63)**	(697)	(709)
Stock options exercised	**125**	–	–
	(8,621)	(817)	10,518
Investing activities:			
Purchase and deposits on building and equipment	**(5,218)**	(5,296)	(7,313)
Acquisitions *(note 2)*	**–**	–	(5,438)
Due from joint venture	**(313)**	–	–
Other	**(474)**	(418)	(181)
	(6,005)	(5,714)	(12,932)
Effect of foreign currency translation on cash balances	**(100)**	(384)	(108)
Increase (decrease) in cash and cash equivalents	**2,101**	(205)	(1,357)
Cash and cash equivalents, beginning of year	**897**	1,102	2,459
Cash and cash equivalents, end of year	**2,998**	897	1,102
Supplemental cash flow information:			
Interest paid	**1,480**	2,151	1,950
Income taxes paid, net of refunds	**618**	1,070	1,964

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(TABULAR AMOUNTS IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)

YEARS ENDED OCTOBER 31, 2002, 2001 AND 2000

Polyair Inter Pack Inc. (the "Company") manufactures and markets packaging and pool products to distributors located primarily in North America. The majority of the Company's sales are to customers in the United States from operations in the United States. The Company was incorporated under the Business Corporations Act, Ontario.

The accompanying consolidated financial statements include the accounts of the Company's wholly owned subsidiaries, Cantar/Polyair Inc., Cantar/Polyair Corporation, Cantar/Polyair Canada Limited, Performa Corp., C/P International Corp. Inc., Cantar/Polyair of Illinois Inc., Mabex Universal Corporation and PSC Moulding Corporation (76% owned). The Company accounts for its interest in a joint venture, PXL Cross Linked Foam Corporation ("PXL") (50.1% owned) (note 16), using the proportionate consolidation method from the date of acquisition. All significant intercompany accounts and transactions have been eliminated on consolidation.

1. Significant accounting policies:

The consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada and, except as described in note 17, conform in all material respects with accounting principles generally accepted in the United States and practices prescribed by the United States Securities and Exchange Commission.

(a) Reporting currency:

The U.S. dollar is the functional currency of the Company's United States operations. The Canadian dollar is the functional currency of the Company's Canadian operations, which are translated into U.S. dollars using the current rate method. Under this method, all assets and liabilities are translated at the year-end rate of exchange and all revenue and expense items are translated at the average rate of exchange for the year. Exchange rate differences arising on translation are deferred as a separate component of shareholders' equity.

(b) Measurement uncertainty:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. The most significant estimates are related to the valuation of accounts receivable and future income taxes. Actual results could differ from those estimates.

(c) Revenue recognition:

Revenue from product sales is recognized when title passes to the customer, after making appropriate provision for sales returns and credit memos issued.

(d) Cash and cash equivalents:

The Company considers all highly liquid financial instruments with maturity of three months or less at acquisition to be cash equivalents.

(e) Inventory:

Raw material inventory is stated at the lower of cost and replacement cost. Finished goods inventory is stated at the lower of cost, determined by the first-in, first-out method, and net realizable value.

(f) Capital assets:

Capital assets are recorded at cost, including, for major projects, interest capitalized during the construction period. Depreciation is recorded once assets are in use and is calculated using the straight-line method at annual rates designed to amortize the cost over their estimated useful lives as follows:

Building	2½%
Machinery and equipment	10%–50%
Furniture and fixtures	20%
Computer equipment	33%
Leasehold improvements	Over term of lease plus first renewal term

Maintenance and repairs are charged to operations as incurred; significant improvements are capitalized.

(g) Patent, trademarks and license agreement:
Patent, trademarks and license agreement are stated at cost, net of accumulated amortization. Amortization is provided over the useful lives (11 years) of the intangible assets using the straight-line method.

(h) Deferred financing costs:
Deferred financing costs are amortized over the term of the related financing.

(i) Goodwill:
Goodwill is amortized on a straight-line basis over 10 years. The Company periodically evaluates permanent impairment of goodwill by reference to expected undiscounted operating cash flow of the respective entities and any impairment is recognized in income.

(j) Foreign currency translation:
Monetary items denominated in foreign currencies are translated into the functional currency of the respective operations at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets are acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(k) Financial instruments:
The Company, in the normal course of business, periodically enters into forward exchange contracts, swaps and options to manage foreign currency exposures. Gains and losses on these financial instruments are recognized in the same year as the underlying exposure being hedged.

(l) Income taxes:
The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method of accounting for income taxes, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying value and tax basis of assets and liabilities.

Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that the rate changes.

(m) Stock-based compensation plan:
The Company has a stock-based compensation plan, which is described in note 8. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

(n) Earnings per share:
Basic earnings per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed using the weighted average number of common and potential common shares outstanding during the year. Potential common shares consist of the incremental number of common shares issuable upon the exercise of stock options using the treasury stock method.

(o) Recently issued accounting pronouncements:

(i) Stock-based compensation and other stock-based payments:
In December 2001, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3870, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital. The standard is effective for the Company's fiscal year beginning November 1, 2002, for awards granted on or after that date. The Company expects that the impact of this new accounting pronouncement will not be material to its financial position, results of operations or cash flows.

(ii) Foreign currency translation and hedging relationships:
The CICA's Handbook Section 1650 has been amended to eliminate the deferral and amortization of foreign currency translation gains and losses on long-lived monetary items, effective for the Company's fiscal year beginning on November 1, 2002, with retroactive restatement of prior periods. The Company expects that the adoption of this amendment will not have a material impact on the Company's financial position. In addition, the CICA issued Accounting Guideline AcG-13 which establishes criteria for hedge accounting effective for the Company's 2004 fiscal year. The Company is currently assessing the impact of this new accounting pronouncement.

(iii) Business combinations and goodwill:

In September 2001, the CICA issued Handbook Sections 1581, "Business Combinations", and 3062, "Goodwill and Other Intangible Assets". The new standards mandate the purchase method of accounting for business combinations and require that goodwill no longer be amortized but instead be tested for impairment at least annually. The standards also specify criteria that intangible assets must meet to be recognized and reported apart from goodwill. The standards require that the value of the shares issued in a business combination be measured using the average share price for a reasonable period before and after the date the terms of the acquisition are agreed to and announced. Previously, the consummation date was used to value the shares issued in a business combination. The new standards are substantially consistent with United States GAAP.

In connection with Section 3062's transitional goodwill impairment evaluation, the Company is required to assess whether goodwill is impaired as of November 1, 2002. The Company has up to six months to determine the fair value of its reporting units and compare that to the reporting units' carrying amounts. To the extent a reporting unit's carrying amount exceeds its fair value, the Company must perform a second step to measure the amount of impairment in a manner similar to a purchase price allocation. Any transitional impairment will be recognized as an effect of a change in accounting principle and will be charged to opening retained earnings as of November 1, 2002.

As of October 31, 2002, the Company had unamortized goodwill of $822,000 and unamortized other intangible assets of $221,000, all of which are subject to the transitional provisions of Sections 1581 and 3062. The Company estimates that the impact of these provisions will not be material to its results of operations.

2. Acquisitions:

Effective August 23, 2000, the Company acquired substantially all of the assets of Accent Packaging ("Accent"), a division of Century Products Inc., and certain assets of Beco Building Products Inc. ("Beco"). Accent, a regional manufacturer of a specialized line of packaging products, including bubble mailers, and bubble and reflective insulation, has facilities in Atlanta, Georgia, and Malden, Massachusetts. Beco is a supplier of specialized building materials and services to commercial users. The total consideration for the assets purchased was cash of $5.4 million including acquisition costs. The results of operations have been consolidated from the date of acquisition. The purchases are accounted for using the purchase method and the purchase cost was allocated to the fair value of the net assets acquired as follows:

	$
Inventory	260
Capital assets	5,178
	5,438

3. Inventory:

	2002	2001
	$	$
Raw materials	**5,492**	8,440
Finished goods	**5,333**	5,298
	10,825	13,738

4. Capital assets:

2002	Cost	Accumulated depreciation	Net book value
	$	$	$
Land	132	–	132
Building	7,914	993	6,921
Machinery and equipment	40,123	16,331	23,792
Furniture and fixtures	713	605	108
Computer equipment	1,823	1,198	625
Leasehold improvements	2,382	1,522	860
Construction in progress	987	–	987
	54,074	20,649	33,425

2001	Cost	Accumulated depreciation	Net book value
	$	$	$
Land	132	–	132
Building	7,914	790	7,124
Machinery and equipment	36,776	14,638	22,138
Furniture and fixtures	917	622	295
Computer equipment	2,585	1,833	752
Leasehold improvements	2,177	1,098	1,079
Construction in progress	2,427	–	2,427
	52,928	18,981	33,947

5. Intangible and other assets:

2002	Cost	Accumulated amortization	Net book value
	$	$	$
Patent, trademarks and licence agreement	408	187	221
Deferred financing costs	1,247	543	704
Goodwill	1,063	241	822
	2,718	971	1,747

2001	Cost	Accumulated amortization	Net book value
	$	$	$
Patent, trademarks and licence agreement	434	189	245
Deferred financing costs	726	420	306
Goodwill	1,066	195	871
	2,226	804	1,422

6. Bank indebtedness:

During the year, the Company negotiated a replacement borrowing facility with new lenders. This new facility provides the Company with a total line of credit of approximately $55.7 million, of which a maximum of $25.0 million is for working capital with availability determined monthly based on eligible accounts receivable and inventory. Based on October 31, 2002, balances, the available line of credit is $17.8 million, of which the Company has used $9.0 million to support its long-term debt, including a letter of credit of $6.3 million. As at October 31, 2002, no amounts have been drawn on the line of credit, leaving an unused available working capital line of credit of approximately $8.8 million. The remaining $31.0 million is for capital expenditures, acquisitions and new business opportunities, of which $13.0 million (2001 – $10.0 million) has been used as term loans. The letter of credit is subject to a fee of 1.5% per annum. The line of credit is reviewed and renewed annually and is subject to an unused credit facility fee of 0.375% per annum on the undrawn balance.

Certain of the loans disclosed in note 7 are supported by the Company's bank letter of credit. The line of credit and the loan agreements are secured by substantially all the assets of the Company and contain various restrictive covenants relating to, among other things, minimum levels of tangible net worth and net income, limitations of indebtedness and building and equipment purchases, and various other items.

	2002	2001
	$	$
$21,000,000 credit facility, interest payable at U.S. prime plus 0.5% or LIBOR plus 2.75%	–	–
$4,000,000 in Canadian dollar equivalent credit facility, interest payable at Canadian prime plus 0.5% or LIBOR plus 2.75%	–	–
$11,000,000 credit facility, interest payable at U.S. prime plus 0.5% or LIBOR plus 2.25%	–	8,523
$5,000,000 in Canadian dollar equivalent credit facility, interest payable at Canadian prime	–	1,187
	–	9,710

The weighted average year-end exchange rate is nil in 2002 (2001 – 5.82%)

7. Long-term debt:

	2002	2001
	$	$
Term loan, repayable by monthly principal payments of $99,500 plus interest at prime plus 0.5%	–	5,323
Term loan, repayable by monthly principal payments of $83,333 plus interest at prime plus 2%	–	4,700
Debenture loan, bearing interest at 6.5% per annum, maturing April 1, 2005	**3,500**	4,000
Debenture loan, repayable by quarterly sinking fund installments. The rate of interest is floating, based on the rates prevalent for the highest rated short-term, U.S. federally tax-exempt obligations, maturing June 1, 2016	**2,792**	2,895
Loan, repayable by monthly blended principal and interest installments of $20,527, bearing interest at 3%, maturing January 2006	**762**	982
Loan, repayable by monthly blended principal and interest installments of $14,075, bearing interest at 3%, maturing March 2007	**696**	842
Canadian dollar-denominated term loan, repayable by monthly principal installments of $13,150 (Cdn. $20,250) plus interest at prime plus 1%	–	770
Loan, repayable by monthly blended principal and interest installments of $12,903, bearing interest at 3%, maturing June 2007	**671**	804
Debenture loan, repayable by quarterly sinking fund installments. The rate of interest is floating, based on the rates prevalent for the highest rated short-term, U.S. federally tax-exempt obligations, maturing September 2003	**143**	293
Term loan, repayable by monthly blended principal and interest installments of $17,012, bearing interest at 7.756%, due April 2002	–	100
Note payable, repayable in quarterly blended principal and interest installments of $16,942, bearing interest at 12%, maturing October 31, 2005	**175**	218
Term loan, repayable by monthly principal payments of $54,762 plus interest at prime plus 0.5%, maturing June 2009	**2,107**	–
Term loan, repayable by monthly principal payments of $46,667 plus interest at prime plus 0.5%, maturing June 2012	**5,180**	–
Canadian dollar-denominated term loan, repayable by monthly principal installments of $21,400 (Cdn. $32,679) plus interest at prime plus 1%, maturing November 1, 2005	**1,676**	–
Term loan, repayable by monthly principal payments of $57,959 plus interest at 5.07%, maturing August 2007 (Wells Fargo)	**2,931**	–
Term loan, repayable by monthly principal payments of $24,075 plus interest at 4.97%, maturing September 2007 (Wells Fargo)	**1,277**	–
Loan, repayable by monthly blended principal and interest installments of $1,640, bearing interest at 6%	–	23
	21,910	20,950
Less current portion	**3,064**	11,589
	18,846	9,361

Interest expense (income) is as follows:

	2002	2001	2000
	$	$	$
Interest expense on long-term debt	**1,052**	1,518	1,243
Other interest expense	**677**	1,091	850
Interest income	**(12)**	(10)	(69)
	1,717	2,599	2,024

Aggregate maturities on long-term debt are as follows:

	$
2003	3,064
2004	4,009
2005	5,080
2006	2,679
2007	1,935
Thereafter	5,143
	21,910

8. Capital stock:

Authorized:
Unlimited common shares

Issued:

	2002		2001	
	Shares	**Amount**	Shares	Amount
		$		$
Outstanding, beginning of year	**6,215,300**	**9,933**	6,502,100	10,376
Shares repurchased for cancellation	**(25,000)**	**(37)**	(286,800)	(443)
Options exercised during year	**33,000**	**125**	–	–
Outstanding, end of year	**6,223,300**	**10,021**	6,215,300	9,933

During the year, the Company repurchased for cancellation 25,000 (2001 – 286,800) common shares pursuant to a Normal Course Issuer bid at an average cost of $2.57 (2001 – $2.43) per share. The excess of the purchase cost over the book value of the shares was charged to retained earnings.

Stock options:
Prior to May 31, 2002, the Board of Directors granted options to purchase shares, which vest over a period of seven years, to directors, officers or full-time salaried employees of the Company. One-seventh of the options were exercisable on the date of grant, with the balance vesting one-seventh on each of the next six anniversary dates. All options were set to expire seven years from the date of grant. Under the plan 941,000 options were issuable. At year-end, the weighted average remaining contractual life of the options is 0.7 years (2001 – 1.7 years; 2000 – 2.7 years) and 658,143 (2001 – 707,443; 2000 – 609,443) options are exercisable, at $6.00.

Effective May 31, 2002, the Plan was amended to:
(a) Extend the term for exercise of options granted under the Plan after May 31, 2002, from seven years to ten years.
(b) Increase the number of options to purchase common shares that may be granted under the Plan by 100,000.
(c) Reduce the vesting period for any new options granted under the Plan after May 31, 2002, to five years from seven years.

	OPTIONS			AVERAGE EXERCISE PRICE (CDN. $)		
	2002	2001	2000	**2002**	2001	2000
				$	$	$
Outstanding, beginning of year	**871,200**	871,900	841,700	**6.00**	6.00	6.00
Granted	**16,800**	18,900	35,500	**6.34**	6.00	6.00
Exercised	**(33,000)**	–	–	**(6.00)**	(6.00)	–
Forfeited	**(17,350)**	(19,600)	(5,300)	**(6.00)**	(6.00)	(6.00)
Outstanding, end of year	**837,650**	871,200	871,900	**6.00**	6.00	6.00

Subsequent to the year-end, the Company repurchased 120,000 shares at a cost of $634,615.

9. Earnings per share:

The following table sets forth the calculation of basic and diluted earnings per share:

	2002	2001	2000
	$	$	$
Numerator:			
Net income (earnings available to common shareholders)	**4,449**	1,665	3,126
Denominator:			
Weighted average number of shares outstanding	**6,206,311**	6,232,052	6,571,400
Effect of dilutive securities:			
Employee stock options	**82,148**	–	–
Weighted average shares – diluted	**6,288,459**	6,232,052	6,571,400
Earnings per share:			
Basic	**0.72**	0.27	0.48
Diluted	**0.71**	0.27	0.48

10. Income taxes:

	2002	2001	2000
	$	$	$
Current income taxes:			
U.S. federal	**2,795**	725	977
U.S. state	**707**	129	407
Canada	**129**	(149)	112
	3,631	705	1,496
Future income tax expense (recovery):			
U.S. federal	**(225)**	331	392
U.S. state	**(56)**	70	85
Canada	**(229)**	304	171
	(510)	705	648
	3,121	1,410	2,144

The Company's income tax expense differs from the amount that would have resulted by applying Canadian statutory tax rates of approximately 39.0% (2001 – 42.4%) to earnings as described below:

	2002	2001	2000
	$	$	$
Income tax expense calculated using statutory tax rates	**2,952**	1,303	2,320
Non-deductible expenses	**106**	113	99
Manufacturing and processing profits deduction	**5**	4	(25)
Foreign earnings subject to different tax rates	**25**	(115)	(263)
Large Corporations Tax	**33**	25	11
Reduction in future tax rates	**18**	–	342
Future tax amounts previously unrecognized	**–**	43	(120)
Reduction in valuation allowance	**–**	(36)	(286)
Other	**(18)**	73	66
	3,121	1,410	2,144

A summary of the principal components of future tax liabilities calculated in accordance with Canadian accounting principles at October 31 is as follows:

	2002	2001
	$	$
Non-current future tax liabilities:		
Capital assets	**(2,847)**	(2,823)
Current future tax assets:		
Donations	**28**	–
Inventory	**215**	276
Accounts receivable	**13**	(30)
Corporate minimum tax credit	**18**	18
Accrued liabilities	**611**	95
	885	359
Non-current future tax assets:		
Deferred financing costs	**1**	–
Non-capital loss carryforwards	**473**	466
Capital loss carryforwards	**15**	15
Corporate minimum tax credit	**114**	114
	603	595
Valuation allowance	**(84)**	(84)
	519	511
	1,404	870
Net future tax liabilities	**(1,443)**	(1,953)

The Company has recorded future tax assets of $1,404,000, after a valuation allowance of $84,000 is taken in consideration. In order to fully realize the future income tax assets, the Company will need to generate future taxable income of approximately $3,400,000. Based on projections of future taxable income over the periods in which the future income tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the future tax assets, net of the existing valuation allowance.

One of the Company's U.S. subsidiaries has non-capital loss carryforwards of $1,065,000, of which approximately $106,000 expires in each year from 2003 to 2012. The Company's Canadian subsidiary has Ontario corporate minimum tax credits of approximately $69,000 and the Company has capital loss carryforwards of approximately $83,000 for which no future income tax assets have been recognized.

11. Commitments:

The Company leases office and warehouse facilities under operating leases. Rental expenses for all operating leases for the year totalled $2,311,131 (2001 – $2,186,377).

Future minimum rental payments to be made for all non-cancellable operating leases are as follows:

	$
2003	2,412
2004	2,140
2005	1,853
2006	1,086
2007	319
	7,810

12. Related party transactions:

The Company is party to certain agreements and transactions in the normal course of business with shareholders and companies related by common ownership. Significant related party transactions not disclosed elsewhere include rent of $207,559 (2001 – $170,303), which is recorded at the amount agreed to by the parties.

13. Contingencies:

The Company is involved in various legal proceedings normally incident to its business which, in the opinion of management, will not have a material impact upon the financial position of the Company.

14. Financial instruments:

The fair values of the Company's financial assets and liabilities approximate their carrying values, based principally on short terms to maturities and interest rates offered to the Company for debt with similar terms and conditions.

The Company periodically uses derivative financial instruments, including swaps, forward contracts and options to manage its foreign currency exposures. At October 31, 2002, the Company had no outstanding commitments.

15. Segmented information:

The Company manufactures and markets packaging and pool products. The Company operates in the United States and Canada.

By geographic region:

	2002	2001	2000
	$	$	$
Sales:			
United States	**103,340**	96,410	89,131
Canada	**16,170**	15,214	15,833
	119,510	111,624	104,964
Capital assets and goodwill:			
United States	**24,884**	25,806	25,883
Canada	**7,761**	7,044	7,125
Corporate	**1,602**	1,968	1,370
	34,247	34,818	34,378

By operating segment:

	2002	2001	2000
	$	$	$
Sales:			
Packaging products	**85,324**	80,354	73,114
Pool products	**34,186**	31,270	31,850
	119,510	111,624	104,964
Depreciation and amortization:			
Packaging products	**4,296**	4,226	2,938
Pool products	**778**	579	549
Corporate	**921**	729	548
	5,995	5,534	4,035
Operating profit:			
Packaging products	**10,335**	7,174	10,121
Pool products	**3,758**	1,707	1,109
Corporate	**(4,819)**	(3,210)	(3,946)
	9,274	5,671	7,284
Total assets:			
Packaging products	**45,191**	45,081	45,384
Pool products	**15,056**	18,414	18,027
Corporate	**7,164**	5,118	5,118
	67,411	68,613	68,529
Capital expenditures:			
Packaging products	**4,385**	4,212	10,539
Pool products	**460**	660	1,473
Corporate	**373**	424	479
	5,218	5,296	12,491

16. Interest in joint venture:

In August 2002, the Company entered into an agreement to establish a joint venture. These financial statements reflect the Company's proportionate interest in the joint venture's assets and liabilities. No revenue or expenses were incurred by the joint venture during the year.

The following amounts included in the consolidated financial statements represent the Company's proportionate interest in the joint venture at October 31, 2002:

	$
Due from joint venture	315
Fixed assets	301
Other assets	23
Bank indebtedness	(7)
Net assets	632

17. Generally accepted accounting principles in Canada and the United States:

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, which differ in certain material respects from the principles and practices that the Company would have followed had its consolidated financial statements been prepared in accordance with accounting principles and practices generally accepted in the United States.

(a) Stock-based compensation plans:

United States accounting principles allow, but do not require companies to record compensation cost for stock option plans at fair value. The Company has chosen to continue to account for stock options using the intrinsic value method as permitted under United States accounting principles. The United States pronouncement does, however, require the disclosure of pro forma earnings and earnings per share information as if the Company had accounted for its employee stock options under the fair value method. Accordingly, the fair value of these options has been estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

	ASSUMPTIONS				
	Expected volatility	Risk-free interest rate	Weighted average fair value	Expected life	Vesting period
			(Cdn. $ per share)		
Options granted:					
2002	80%	1.70%	3.80	7	7
2001	80%	2.25%	2.70	7	7
2000	80%	6.50%	5.33	7	7

	2002	2001	2000
	$	$	$
Net income – U.S. GAAP	**4,449**	1,665	3,126
Compensation cost	**125**	246	275
Pro forma net income – U.S. GAAP	**4,324**	1,419	2,851
Earnings per share – U.S. GAAP:			
Basic	**0.72**	0.27	0.48
Diluted	**0.71**	0.27	0.48
Pro forma earnings per share:			
Basic	**0.70**	0.23	0.43
Diluted	**0.69**	0.23	0.43

(b) Comprehensive income:

In applying SFAS No. 130, "Reporting Comprehensive Income," comprehensive income would have been arrived at by adjusting net income for the change in foreign currency translation amounts during the year. As a result, net income would have increased by $78,000 (2001 – decreased by $173,000; 2000 – decreased by $480,000) for other comprehensive income, which resulted from foreign currency translation adjustments. The total comprehensive net income for the year would be $4,527,000 (2001 – $1,492,000; 2000 – $2,646,000).

(c) Statement of cash flows:

Under United States GAAP, the subtotal within cash provided by operating activities would not be permitted in the consolidated statement of cash flows.

(d) Accrued liabilities:

Included in accrued liabilities is $1,800,000 related to accrued management compensation and $1,283,000 related to accrued rebates.

(e) Interest in joint venture:

Canadian GAAP requires the proportionate consolidation of interests in joint ventures. Proportionate consolidation is not permitted under U.S. GAAP and interests in joint ventures are accounted for on the equity basis. However, as allowed by the Securities and Exchange Commission ("SEC"), reclassification is not required in an SEC filing when specified criteria are met and information disclosed. These criteria have been met and the information is disclosed in note 16.

(f) New United States recent accounting pronouncements:

In June 2001, SFAS No. 143, "Accounting for Asset Retirement Obligations", was approved and requires that the fair value of an asset retirement obligation be recorded as a liability, at fair value, in the period in which the Company incurs the obligation. SFAS No. 143 is effective for the Company's fiscal year commencing November 1, 2003. The Company expects the adoption of this standard will have no material impact on its financial position, results of operations or cash flows.

In July 2001, the FASB issued Statement No. 141, "Business Combinations", and Statement No. 142, "Goodwill and Intangible Assets". These statements are substantially consistent with CICA Sections 1581 and 3062 (refer to note 1(o)) except that under United States GAAP, any transitional impairment charge is recognized in earnings as a cumulative effect of a change in accounting principle. Under Canadian GAAP, the cumulative adjustment is recognized in opening retained earnings.

In October 2001, the FASB issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which retains the fundamental provisions of SFAS No. 121 for recognizing and measuring impairment losses of long-lived assets other than goodwill. Statement No. 144 also broadens the definition of discontinued operations to include all distinguishable components of an entity that will be eliminated from ongoing operations. This Statement is effective for the Company's fiscal year commencing November 1, 2002, to be applied prospectively. The Company expects the adoption of this standard will have no material impact on its financial position, results of operations or cash flows.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146") which is effective for exit or disposal activities that are initiated after December 31, 2002. FAS 146 requires that a liability be recognized for exit or disposal costs only when the liability is incurred, as defined in the FASB's conceptual framework rather than when a company commits to an exit plan, and that the liability be initially measured at fair value. The Company does not anticipate that the implementation of these rules will have a material impact on the financial position, results of operations or cash flows.

In November 2002, the Financial Accounting Standards Board Issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (the "Interpretation"), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. The Interpretation requires the guarantor to recognize a liability for the non-contingent component of the guarantee. This is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements. The statement is effective for the Company's fiscal year commencing November 1, 2002. The Company does not anticipate that the implementation of these rules will have a material impact on the financial position, results of operations or cash flows.

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President and
Chief Executive Officer

John Foglietta
Chief Financial Officer

Daniel S. Tamkin
Secretary

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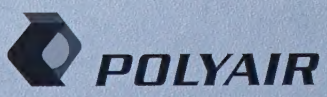
Chief Financial Officer
Polyair Packaging

Martin De Groot
President
PSC Moulding Corporation

Jerry Vanderwerff
Vice-President
PSC Moulding Corporation

△ Audit Committee
† Compensation Committee

Annual Meeting
The annual meeting of shareholders will be held April 10, 2003, at 4:00 p.m. at Polyair Inter Pack's offices at 258 Attwell Drive, Toronto, Ontario. The meeting notice and proxy materials were mailed to shareholders with this report. Polyair urges all shareholders to vote their proxies so that they can participate in the decisions at the annual meeting.



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